STATE OF IOWA

DEPARTMENT OF COMMERCE

UTILITIES BOARD

IN RE: MIDAMERICAN ENERGY COMPANY	DOCKET NO. RPU-02-2

ORDER SETTING TEMPORARY RATES AND APPROVING CORPORATE UNDERTAKING

(Issued June 12, 2002)

On March 15, 2002, MidAmerican Energy Company (MidAmerican) filed with the Utilities Board (Board) proposed tariffs, identified as TF-02-115 and TF-02-116. In TF-02-115, MidAmerican is proposing a temporary increase that would produce additional revenue of approximately $20.4 million. In TF-02-116, MidAmerican is proposing a permanent annual revenue increase of approximately $26.6 million, or an overall annual revenue increase of 4.3 percent. The Board docketed the proposed temporary and permanent rate increases as Docket No. RPU-02-2.

On April 12, 2002, the Consumer Advocate Division of the Department of Justice (Consumer Advocate) filed an objection to the request for temporary rates. MidAmerican filed a response to the objection on April 26, 2002.

Iowa Code § 476.6(13) (2001) controls the manner in which the Board sets temporary rates. That statute provides, in part:

> Upon the request of a public utility, the board shall, when required by this subsection, grant the public utility temporary authority to place in effect any or all of the suspended rates, charges, schedules or regulations by filing with the board a

> bond or other undertaking approved by the board conditioned upon the refund in a manner to be prescribed by the board of any amounts collected in excess of the amounts which would have been collected under rates, charges, schedules or regulations finally approved by the board. In determining the portion of the new or changed rates, charges, schedules or regulations to be placed in effect prior to a final decision, the board shall apply previously established regulatory principles and shall, at a minimum, permit rates and charges which will allow the utility the opportunity to earn a return on common stock equity equal to that which the board held reasonable and just in the most recent rate case involving the same utility or the same type of utility service, provided that if the most recent final decision of the board in an applicable rate case was rendered more than twelve months prior to the day of filing of the request for temporary rates, the board shall in addition consider financial market data that is filed or that is otherwise available to the board and shall adjust the rate of return on common stock equity that was approved in that decision upward or downward as necessary to reflect current conditions.

In <u>Northwestern Bell v. Iowa State Commerce Commission</u>, 359 N.W.2d 491, 496 (Iowa 1984), the Iowa Supreme Court interpreted this statute and stated, in part:

> [I]n the 1983 Code the Assembly telescoped the temporary and permanent rate steps into one procedure, evidently to end the prior problem of a utility's placing its new rates in effect in temporary form under bond and then having little motivation to press forward with the permanent rate aspect. The General Assembly has ended the ability of the utility itself to set the temporary rates in the usual situation; the commission sets them and proceeds to the permanent rates. If instead the utility could obtain judicial review of temporary rates and obtain its desired rates from the courts, as in this case, its motivation to seek permanent rates would be dulled and fulfillment of the legislative scheme would be hampered. To minimize the possibility of harm to the utilities, the legislature started time running from the original filing as to both temporary and permanent rates ...

> While permanent rates may ultimately be set higher than the commission's temporary rates, by shortening the time for the commission's final decision to ten months and by streamlining the temporary and permanent rate procedure, the Assembly has demonstrated its desire to minimize utility hardship.

The Board, therefore, is directed to permit MidAmerican to collect rates which, at a minimum, allow the return on common equity equal to that which was held reasonable in the most recent rate case involving the same utility or same type of utility service, provided the Board's decision was rendered within 12 months prior to MidAmerican's request for temporary rates. If there is not a Board decision within the prior 12 months, the Board shall consider market data that is filed or that is otherwise available to adjust the most recent return on common equity to reflect current conditions.

In addition, the Board is directed to apply established regulatory principles in setting the return on common equity and considering any proposed adjustments. Since the legislature directs the Board to establish a temporary rate level by applying established regulatory principles rather than examining an evidentiary record, it is not appropriate for the Board to make detailed findings of fact on each individual issue.

Consumer Advocate's objection to MidAmerican's request for temporary rates and MidAmerican's reply to the objection narrowed the issues to be considered in setting temporary rates. The issues to be addressed will be discussed below:

I. COST OF CAPITOL

A. Return on Common Equity

In determining the appropriate return on common equity to use in setting temporary rates for MidAmerican, the Board must apply the requirements of Iowa Code § 476.6(13) set out above. There has been no litigated final general rate case decision by the Board since 1994, so the Board has considered filed market data and other current available data to determine a reasonable return on common equity for MidAmerican. There have been more recent decisions but those were settled cases and the Board has held that it is inappropriate to use a return on common equity from a settled case to set temporary rates. Interstate Power Company, Docket No. RPU-95-1, "Order Setting Temporary Rates and Approving Corporate Undertaking" (issued June 29, 1995).

In this case, MidAmerican proposes a 12.6 percent return on common equity, which it states is a simple average of three calculated return on equity values as presented by its witness, Dr. James Vander Weide. The three calculations from which the average is calculated are: a discounted cash flow analysis return on common equity of 12.24 percent; an ex ante risk premium analysis return on equity of 12.20 percent; and an ex post risk premium analysis return on equity of 13.16 percent.

MidAmerican states in its response to Consumer Advocate's objection that a minimum acceptable return on common equity would be based upon the A-rated bond rate for public utilities of 7.75 percent and the upper quarter of the widest risk premium range approved by the Board for temporary rates of 250-450 basis points. The minimum return on common equity calculated using these criteria would be 11.75 percent.

Consumer Advocate proposes a return on common equity of 11.23 percent. This return on common equity is calculated using an A-rated public utility bond rate of 7.73 percent and the midpoint of the risk premium range of 250–450 basis points proposed as a minimum by MidAmerican. Consumer Advocate suggests that it is inappropriate when setting temporary rates to increase the upper limit of the risk premium range or use the testimony of Dr. Vander Weide in establishing a return on common equity.

The Board has used a risk premium methodology in recent decisions to establish a return on common equity for temporary rates. The Board finds that this is the established regulatory principle to utilize in this case. This methodology has consisted of adding a risk premium range to the most recent market yield for A-rated utility bonds. Although different risk premium ranges have been approved by the Board, the Board finds that the risk premium range of 250-450 basis points should be used in setting temporary rates for MidAmerican.

The most current A-rated utility bond yield available to the Board is 7.57 percent for April 2002, found in the "Mergent Bond Record," May 2002, Vol. 69, No. 5. Using the Board's usual risk premium range of 250-450 basis points yields a range of reasonable returns from 10.07 to 12.07 percent. Based on consideration of the data available, the Board finds the return for temporary rates should be set slightly above the mid-point at 11.3 percent.

II. RATE BASE

A. 2001 Sales Growth

MidAmerican proposes rate base adjustments for incremental new plant used to serve customer growth during the 2001 test period. There is a corresponding $90,869 depreciation expense adjustment and a matching revenue adjustment discussed later in this order. The rate base adjustment would increase distribution plant by $2,601,536 and accumulated depreciation by $58,250. These dollar amounts are based upon the average cost of extending new service to customers. MidAmerican suggests if the Board denies the rate base and expense adjustments, it should also deny the 2001 sales revenue adjustment.

Consumer Advocate objects to the rate base adjustment and expense adjustment, but supports the revenue adjustment.

The Board finds that the rate base and expense adjustments are reasonable since they match known and measurable changes in rate base to known and measurable changes in revenue associated with 2001 sales growth.

III. INCOME STATEMENT

A. 2001 Sales Growth

MidAmerican proposes a two-part revenue adjustment for 2001 sales growth. First, MidAmerican proposes a revenue increase of $1,186,383 to reflect residential and commercial customer growth during the test period. Second, MidAmerican proposes a revenue reduction reflecting a decrease in residential use per customer during the test period of $618,776.

Consumer Advocate agrees with the revenue increase adjustment to reflect sales growth. Consumer Advocate objects to the revenue reduction for the decline in use per customer. Consumer Advocate suggests that the revenue reduction adjustment is not supported by established regulatory principles.

The Board finds that the revenue increase adjustment is reasonable and is based upon established regulatory principles. The Board finds that the revenue reduction adjustment is not based upon established regulatory principles, is not known and measurable, and is based on an estimate that should be examined in the full case.

B. Operator's Qualification Plan

MidAmerican proposes an adjustment to increase test year expenses for the cost of complying with federal safety regulations related to the Operator's Qualification program for gas operations personnel. MidAmerican proposes a net expense adjustment of $139,847. MidAmerican suggests that costs can be identified, are reasonable, and meet the "generally known and measurable" test from

Iowa-Illinois Gas Company v. Iowa State Commerce Corporation, 412 N.W.2d 600, 608 (Iowa 1987).

Consumer Advocate objects to the adjustment as not known and measurable.

The Board finds that the expenses associated with the Operator's Qualification program are estimated and therefore not known and measurable. The Board will not make an adjustment to expenses for these estimated costs. The Iowa-Illinois case cited by MidAmerican is not on point since that case involved the first year operating costs of an electric generating plant that were used in setting final rates.

C. Rate Case Expense

MidAmerican proposes a net increase of $28,500 in rate case expenses for the calculation of temporary rates in this proceeding. Consumer Advocate objects to the adjustment since the amounts are not known and measurable.

The Board finds that established regulatory principles from the Board's decision setting temporary rates in Docket No. RPU-98-5 requires the rejection of this expense in setting temporary rates in this docket. The rate case expenses for this docket are not known and measurable and are only estimates. In addition, Iowa Code § 476.6(8) requires the Board to approve recovery of actual litigation expenses over a reasonable period of time that are submitted by MidAmerican after conclusion of MidAmerican's evidence and briefs. A request for rate case expense in temporary rates is premature.

Consumer Advocate also proposes that rate case expense be adjusted to recognize that previous rate case expenses will be fully amortized prior to the effective date of temporary rates in this proceeding. MidAmerican does not object to this adjustment. The Board will approve the adjustment to rate case expense to remove the fully amortized preview rate case expenses.

D. Interest Synchronization

This adjustment involves the proper matching or synchronizing of long-term interest for purposes of calculating income taxes and long-term interest expense included in the revenue requirement for temporary rates. MidAmerican proposes a long-term interest amount of $10,028,717 and suggests that its calculation is consistent with previous Board decisions in Docket Nos. RPU-91-5, RPU-94-3, and RPU-98-5.

Consumer Advocate points out that the rates set in Docket Nos. RPU-94-3 and RPU-98-5 were based upon settlements and cannot be used as precedent. Consumer Advocate then points out that the schedules attached to the final order in Docket No. RPU-91-5 do not specifically show what was used as book long-term debt interest in the case working capital calculation. Consumer Advocate then contends temporary rates should be set based upon the difference between pro forma long-term debt interest and book long-term debt interest as established in Docket No. RPU-94-2. Consumer Advocate proposes a long-term interest amount of $7,121,001.

The Board finds it is more reasonable to use the verifiable long-term debt interest in calculating temporary rates. MidAmerican and Consumer Advocate agree that booked long-term debt interest is $7,121,001. Whether MidAmerican's $10,028,717 amount, which includes items in addition to booked long-term debt, should be used in setting final rates will need to be litigated and is therefore not appropriate for setting temporary rates.

IV. RATE DESIGN

A. Temporary Rate Design

1. Rate Spread

Since MidAmerican has proposed several changes to its current rate design for the implementation of final rates, the Board must address how to best implement the temporary rates to minimize customer confusion and potential effects of the final rate design. Consumer Advocate has proposed that no customer class receive a temporary rate increase greater than the proposed final rate increase and that no temporary increase should be made for those rates proposed to be reduced in the final rate design.

MidAmerican agreed with Consumer Advocate's proposal with some changes. To prevent disparities caused by MidAmerican's proposed final rate design, MidAmerican proposes that the temporary rate increase for East Rate 70 be limited to 10 percent and that no changes be made to East Rate 87, West Rate MVF, West Rate SVI, West Rate MT, and West Rate ST. To ensure that MidAmerican recovers the total temporary increase amount, MidAmerican proposes that any resulting shortfall from rate limitations should be spread to all other rate codes uniformly.

The Board finds that the temporary rate increase should be spread based upon three criteria. First, rate codes with proposed final rate reductions will receive no temporary increase. Second, no rate code will receive a temporary increase greater than the increase proposed in final rates. Third, the temporary increases will otherwise be applied in a uniform percentage basis to monthly non-gas cost rate elements, except for IJUMP service and administrative charges. The rate design criteria will be applied by rate code rather than rate sub-group.

2. Rate Elimination

MidAmerican and Consumer Advocate agree to the elimination of rate codes CF-1, GLC, GLR, ISR, PGD, CI-1, and SC-1. These are miscellaneous unused rate codes, except for small amounts of company use under CI-1, which will be transferred to West Rate SVF. The billing determinants for CI-1 will be transferred to West Rate SVF Non-Residential.

3. Rate Availability

MidAmerican has proposed to limit the availability of interruptible rates West Rates LVI and SVI to current customers pending a decision by the Board on elimination of these two rate codes. Consumer Advocate opposes limiting the availability of the two rates.

The Board will approve this limitation to prevent new customers from incurring any back-up costs while the Board considers whether to eliminate the two rate codes.

4. Additional Concerns

In its "Order Directing Response" issued April 25, 2002, the Board questioned MidAmerican's use of pro forma revenues as the starting point for determining rates needed to produce the temporary revenue increase, rather than using current rates applied to pro forma billing determinants. Traditionally, revenue increases in a rate case are produced by applying base tariff rate changes to the adjusted pro forma test year billing determinants. The point is important because the pro forma revenues used in MidAmerican's rate calculations were significantly higher than current rates applied to pro forma billing determinants, overstating needed rate increases by $850,000.

In its response filed May 2, 2002, MidAmerican agreed to use current rates applied to pro forma billing determinants as the starting point for determining temporary rates. The Board expects MidAmerican to design temporary rates according to traditional practice, such that differences between current and temporary rates, applied to adjusted pro forma billing determinants, produce the allowed temporary revenue increase.

B. 2001 Sales Growth Adjustment

In conjunction with the negative revenue adjustment for declining use per customer, MidAmerican proposes negative billing determinant adjustments of 2,774,420 therms for West Rate SVF Residential and 1,807,400 therms to East Rate 60. Since the Board has rejected the revenue adjustment for declining use per customer, MidAmerican shall reverse the residential pro forma billing determinant adjustments associated with the declining use per customer.

C. Orange City Sale Adjustment

MidAmerican proposes a revenue adjustment for final rates to reflect the sale of the Orange City, Iowa, gas system. This adjustment is not proposed for temporary rates. MidAmerican makes a corresponding billing determinant adjustment for final rates that will need to be removed for establishing temporary rates. MidAmerican will make this adjustment to billing determinants for setting temporary rates.

V. CORPORATE UNDERTAKING

In conjunction with the application for temporary rates, MidAmerican filed a corporate undertaking in which it agreed to refund any temporary rates up to $20,351,000, with interest, which are collected that exceed final rates ultimately approved by the Board. The Board finds that this corporate undertaking is sufficient to ensure payment of any required refund and will be approved.

VI. ORDERING CLAUSES

IT IS THEREFORE ORDERED:

1. Temporary rates based on this order shall become effective as of the date of this order, pursuant to Iowa Code § 476.6(13) (2001).

2. On or before 20 days from the date of this order, MidAmerican Energy Company shall file revised tariff sheets that produce total revenue, including a temporary rate increase of $13,823,286, not to exceed $696,981,107. Attached to this order, and incorporated by reference, are Schedules A through E reflecting total revenue requirement, rate base, weighted cost of capital, income statement, and billing determinant adjustments for temporary rates.

3. MidAmerican Energy Company's corporate undertaking is approved.

UTILITIES BOARD

/s/ Diane Munns

/s/ Elliott Smith

DISSENT

I respectfully dissent from the portion of this decision regarding the limitation of the availability of interruptible rates West Rates LVI and SVI. I do not believe it is correct to deny new customers the benefit of the interruptible rates because the Board might eliminate the interruptible rates in the final order. If the Board ultimately decides to maintain the interruptible rates, some customers will have been denied service under the lower interruptible rates for a period of time. Second, it seems that there is an issue of fairness if existing customer A is allowed to have interruptible rates but new customer B, who is similarly situated, is not allowed to take interruptible service. I would have denied MidAmerican's request to limit the availability of interruptible rates and instead would have simply required MidAmerican to notify any new customer that MidAmerican had requested, and that the Board could approve, the elimination of interruptible rates in our final decision in this case.

/s/ Mark O. Lambert

ATTEST:

/s/ Judi K. Cooper
Executive Secretary

Dated at Des Moines, Iowa, this 12th day of June, 2002.

Schedule A

MidAmerican Energy Company
Revenue Requirement
Docket No. RPU-02-2
Temporary Rates

Line No.	Item	Amount (A)
1	Rate Base	$322,201,188
2	Rate of Return	9.394%
3	Required Return	$30,267,580
4	Less: Adjusted Operating Income	$22,238,862
5	Net Operating Income Deficiency	$8,028,717
6	Income Tax Effect	$5,712,028
7	Revenue Deficiency/(Excess)	$13,740,745
8	Uncollectable Accounts @ .6007%	$82,541
9	Additional Revenue Requirement	$13,823,286
10	Plus: Adjusted Test Year Revenues	$683,157,821
11	Revenue Requirement	$696,981,107

MidAmerican Energy Company
Adjusted Rate Base
Docket No. RPU-02-2
Temporary Rates

Schedule B

Line No.	Description	Adjusted Amounts (A)
1	Utility Plant in Service	$692,071,281
2	Accum. Depr. & Amort.	($307,377,934)
3	Net Plant	$384,693,347
	Additions:	
4	Materials and supplies	$3,018,418
5	Fuel Stocks	$399,659
6	Prepayments	$182,024
7	Cash working capital	($3,114,742)
	Deductions:	
8	Accumulated deferred income taxes	($55,797,320)
9	Accumulated def. 3% invt. tax credit	($40,427)
10	Customer advances	($2,148,791)
11	Customer deposits	($477,033)
12	Accu. prov. for uncollectibles	($2,776,654)
13	Reserves	($1,737,293)
14	Total Rate base	$322,201,188

Schedule C

MidAmerican Energy Company
Rate of Return
Docket No. RPU-02-2
Temporary Rates

Line No.	Description	Amount (A)	Ratio (B)	Cost Rate (C)	Weighted Cost (D)
1	Long-Term Debt	$ 972,159,811	43.633%	7.291%	3.181%
2	Preferred Stock	$ 67,916,928	3.048%	6.170%	0.188%
3	Common Stock	$ 1,187,944,510	53.318%	11.300%	6.025%
4	Total	$2,228,021,249	100.000%		9.394%

MidAmerican Energy Company
Adjusted Income Statement
Docket No. RPU-02-2
Temporary Rates

Schedule D

Line No.	Description	Adjusted Amounts (A)
1	**Operating Revenues**	$696,981,107
2	**Operating Expenses:**	
3	O & M Expenses	$617,024,007
4	Depreciation and Amortization	$22,475,524
5	Other Taxes	$14,995,335
6	**Income Tax:**	
7	Current Federal	$6,587,274
8	Current State	$1,827,430
9	Deferred	$4,267,758
10	Investment Tax Credits	($463,801)
11	Total Operating Expenses	$666,713,527
12	Net Operating Income	$30,267,580

MidAmerican Energy Company
Revenue Requirement
Docket No. RPU-02-2
Temporary Rates

Schedule E

BILLING DETERMINANT ADJUSTMENTS FOR TEMPORARY RATES

	Exh. (GCS-4) Billing Determinants	Reversal of Declining Use Per Customer Adjustment	Reversal of Orange City Sale Adjustment	Adjusted Temporary Rate Billing Determinants
Bills:				
West Rate SVF – Res	3,339,356		18,150	3,357,506
West Rate LT / FT	1,182		24	1,206
West Rate LVI	400		3	403
West Rate MT	1,579		24	1,603
West Rate STS – IJUMP	3,246		36	3,282
West Rate SVF – Non-Res	376,293		2,375	378,668
West Rate SVI	1,101		12	1,113
1st Block Therms:				
East Rate 60	161,281,678	1,807,400		163,089,078
West Rate SVF – Res	236,500,583	2,638,798	1,186,610	240,325,991
West Rate LT / FT	66,461,531		1,245,519	67,707,050
West Rate LVI	4,460,809		14,506	4,475,315
West Rate MT	17,119,133		250,536	17,369,669
West Rate STS – IJUMP	556,803		7,571	564,374
West Rate SVF – Non-Res	37,678,992		233,315	37,912,307
West Rate SVI	3,618,399		73,701	3,692,100
2nd Block Therms:				
West Rate SVF – Res	12,155,081	135,622	60,986	12,351,689
West Rate STS – IJUMP	4,152,649		56,467	4,209,116
West Rate SVF – Non-Res	72,684,422		450,074	73,134,496